



OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

November 10, 1982

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MEMORANDUM FOR THE VICE PRESIDENT ✓
THE SECRETARY OF STATE ✓
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE ✓
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT ✓
AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS ✓
ASSISTANT TO THE PRESIDENT FOR ✓
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR ✓
POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE ✓

SUBJECT Senior Interdepartmental Group on International
Economic Policy (SIG-IEP)

Attached is background information on the status of Latin America and Yugoslavia debt situations for discussion at the SIG-IEP meeting to be held on Friday, November 12, at 3:00 p.m., in the Roosevelt Room (White House).

Attendance will be principal, plus one.

for *David E. Pickford*
David E. Pickford
Executive Secretary

Attachments

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NSC review completed.

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SENIOR INTERAGENCY GROUP ON INTERNATIONAL ECONOMIC PROBLEMS
November 12, 1982

MEXICO

Negotiations with the IMF

- o The Government of Mexico has signed a letter of intent with the IMF for a three-year Extended Fund Facility. The program will be presented to the IMF Executive Board for consideration in December.

Negotiations with the Commercial Banks

- o Discussion of new loans and a debt restructuring should begin now that there is an IMF agreement.
 - oo The commercial banks are rolling over most principal payments coming due in the 90-day period which ends on November 23. A second rollover will be necessary to allow time for a longer term debt restructuring.
 - oo Arrears are building up quickly.
 - oo The commercial banks continue to complain that the U.S.G. has taken most collateral. The banks would like to use IMF disbursements to pay down their debt instead of to pay off the U.S. and BIS loans.

Official Assistance

- o The Mexicans have used \$850 million of the \$1.85 billion short-term multilateral line of credit approved in August.
 - oo Disbursements which had been suspended because of lack of progress on the IMF agreement should begin again now that the IMF has approved a letter of intent.
- o The \$1 billion in Commodity Credit Corporation guarantees we approved in August are beginning to be disbursed.
- o The \$1 billion in advance oil payments approved in August have been spent.
- o An IMF program will provide \$4 billion over a three-year period.

ARGENTINA

Negotiations with the IMF

- o Argentina has signed a letter of intent with the IMF for a \$1.6 billion stand-by arrangement which will be presented to the Executive Board for consideration in January.

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- °° Argentina has also requested a Compensatory Financing Facility (CFF) for export shortfalls in grains and beef due to lower prices and reduced demand.
- °° The proposed program calls for halving inflation to 150%, puts a 5% cap on growth of real wages (which have declined by about 30% in recent months) , specifies cuts in the fiscal deficit, and continued stringent balance of payments discipline.
- °° The program contains a real GDP growth target of 5% for 1983, but in view of the fiscal and monetary criteria it is unlikely to be achieved.
- °° Argentina has already ended the two-tiered exchange rate that had been in effect since July.

Negotiations With Commercial Banks

- o Negotiations for \$1.1 billion in new money resumed in New York last week.
- °° The GOA rejected an offer that would have resulted in disbursements not earlier than late December and has submitted a counter-offer to be discussed on November 12.

The B.I.S.

- o There has been little progress in Argentina's efforts to obtain a \$750 million loan from the B.I.S.

BRAZIL

Financial Markets

- o Brazil is current on its external payments and the cash flow problems have eased somewhat during the past week.
- °° Brazil will probably be able to keep the lid on its problems until after elections are held on November 15, and is not expected to openly seek IMF or B.I.S. assistance before December.
- o Foreign bank lending to Brazil continues to be below its needs, but the pace of rollovers has picked up from a low point of 50% in September to nearly 80% during the last several weeks (10/25-11/8).
- °° While many banks continue to be reluctant to lend, Brazil has arranged over \$800 million in short-term bank credit since mid-October and has an additional \$600-\$700 million under negotiation.

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- °° Regional U.S. banks, however, continue to reduce exposure as existing debt matures, while similar steps are being followed by some foreign banks.

Reserves

- o Brazil has less than \$1 billion in readily available reserves against an external financing requirement of about \$2.5 billion for the balance of 1982.
 - °° The Brazilian Central Bank could still become illiquid before the end of the year, resulting in a temporary interruption of commercial payments of \$250 million - \$500 million.
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Colombia and Costa Rica have been added since President Reagan will be visiting these countries along with Brazil in early December.

COLOMBIAAccess to Capital Markets

- o Colombia continues to be regarded as a good credit risk by international bankers, in view of its ample natural resources and reputation for fairly sound economic management.

Growth and Inflation

- o Growth should accelerate to about 4% in 1983 (compared with 3% in 1982 and 2.5% in 1981), as exports pick up and the impact of measures to improve productive and marketing capacity is felt.
- o Inflation appears to have stabilized in the 25-28% range.

Current Account

- o The current account deficit in 1982 will remain at about the 1981 level of \$2.2 billion, as economic policies have sought to maintain aggregate demand. The deficit should decrease slightly to about \$2.1 billion in 1983.

COSTA RICANegotiations with the IMF

- o After six months of negotiations Costa Rica and the IMF have tentatively reached agreement on a one year, \$100 million standby.

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- °° The focus of the program is a sharp cut in the public sector deficit from 15% of GDP in 1982 to 9% in 1983 and 4.5% in 1983.
- °° Approval of the standby is predicated on GOCR implementation of tax, interest rate, and public utility rate increases and a reduction in the spread between the parallel and "inter-bank" foreign exchange market rates to 15%.
- °° While delays are possible IMF Board action is expected in December.

Negotiations with Official and Private Creditors

- o Approval of the standby will clear the way for rescheduling of Costa Rica's external debt.
- °° As of June 30, 1982 external public debt was estimated at \$3 billion and private unguaranteed debt at an additional \$1 billion. Of this 15% is official bilateral credits and 57% is owed to commercial banks and bond and CD holders.
- °° Negotiations on official debt will begin in the "Paris Club" as soon as the IMF program is approved.
- °° The GOCR and commercial creditors have been in contact all year. Significant progress on the issue of interest arrears is the primary precondition for a private rescheduling.

YUGOSLAVIA

- o Yugoslavia faces a severe liquidity crunch.
- °° Yugoslavia is expected to complete its external transactions in its favorable second half of the year with reserves equivalent to about 1 months' import coverage.
- °° The first half of 1983 is seasonally unfavorable; the current account deficit is forecast at \$1.2-1.5 billion.
- °° The overall financing gap may be as high as \$2.5 billion in the first half of 1983 alone.
- °° An interagency group is reviewing options of new money or debt rescheduling for Yugoslavia.

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